PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE

STEERING COMMITTEE MEETING

HONIARA, SOLOMON ISLANDS

MARCH 15-16, 2017

MINUTES

Contents

Glossary

ABS	Australian Bureau of Statistics
ADB	Asian Development Bank
CEO	Chief Executive Officer
DFAT	(Australian) Department of Foreign Affairs and Trade
DRFI	(World Bank) Disaster Risk Financing and Insurance Program
DSM	Deep Sea Mining
D4D	Data for Decision
ESC	(PFTAC) Evaluation Sub-Committee
ESS	External Sector Statistics
EU	European Union
FRCA	Fiji Revenue and Customs Authority
FSIS	Financial Sector Information System
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HIES	Household Income and Expenditure Survey
HQ	Headquarters
ICD	(IMF) Institute for Capacity Development
ICDGP	ICD Global Partnerships Division
IMF	International Monetary Fund
IT	Information Technology
M&E	Monitoring and Evaluation
MFAT	(New Zealand) Ministry of Foreign Affairs and Trade
NSO	National Statistical Organization
NTR	Non-Tax Revenue
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PIC	Pacific Island Country
PICPA	Pacific Islands Centre for Public Administration
PIFMA	Pacific Islands Financial Managers' Association
PITAA	Pacific Islands Tax Administrators' Association
PNG	Papua New Guinea
PSSC	Pacific Statistics Steering Committee
RBM	Results-Based Management
RTAC	(IMF) Regional Technical Assistance Center
SOE	State-Owned Enterprise
SPC	Secretariat of the Pacific Community
TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TYPSS	Ten-Year Pacific Statistics Strategy
VAT	Value-Added Tax

Agenda 1: Welcome Remarks

Presented by: **Hon. Snyder Rini, Minister of Finance and Treasury, Solomon Islands**

1. **Hon. Snyder Rini, Minister of Finance and Treasury, Solomon Islands, welcomed all the participants to the Solomon Islands and to the PFTAC Steering Committee meeting.** PFTAC has been an important institution in the Pacific region supporting Pacific Island Countries (PICs) to improve economic management and achieve sustainable economic growth. This meeting provides an opportunity to thank the IMF and other regional institutions and development partners that have been instrumental in supporting PFTAC, including the Asian Development Bank (ADB), the European Union (EU), and the governments of Australia, New Zealand, The Republic of Korea, and Fiji. In addition, this meeting also provides an opportunity for the Steering Committee to review PFTAC's achievements for FY2017 and examine the Centre's FY2018 work program. Minister Rini commended the Steering Committee in reaching agreements with most member countries to contribute to financing PFTAC operations and announced that Solomon Islands has confirmed it will contribute once specific terms of contributions are received from PFTAC. The Minister concluded by highlighting the importance of Domestic Revenue Mobilization (DRM) and Public Financial Management (PFM) to improve economic management and achieve sustainable economic growth in the region. The Minister encouraged participants to actively participate in discussions and share information and learn from each country's reform efforts.

Agenda 2: Overview of Steering Committee Meeting Day 1 Agenda

Presented by: **Mr. Denton Rarawa, Governor, Central Bank of Solomon Islands**

2. **The Chairman, Mr. Rarawa, provided a summary of the day's agenda.** Mr. Chikahisa Sumi would provide an overview of the global and regional macroeconomic developments and the policy priorities for the Pacific. This would be followed by introductory remarks by Mr. David Kloeden, PFTAC Coordinator. After the photo session, Mr. Kloeden, would present on recent PFTAC developments starting with an overview of the FY2017, the transition from Phase IV and start of Phase V, as well as an overview of the FY2018 work program. Mr. Savenaca Narube will provide an update on the status of members' contributions. The PFTAC resident advisors would also make detailed presentations on FY2017 outcomes and FY2018 work programs. The Chairman welcomed the presentation by Mr. Sumi.

Agenda 3: Overview of Macroeconomic Context and Outlook for PICs

Presented by: **Mr. Chikahisa Sumi, Director, Asia Pacific Development**

3. **Mr. Sumi, Director, IMF Regional Office for Asia and the Pacific (OAP) provided an overview of the macroeconomic context and outlook of the global economy, emerging economies, Asian growth projections, and the Pacific Islands growth.** Mr.

Sumi noted the uneven pickup in global growth. Improved performance in Advance Economies (AEs) was driven primarily by US and revised upward growth in Japan, whilst growth in other AEs remained sluggish. For Emerging Markets and Developing economies (EMDE), near-term growth has been revised up, mainly from China, but growth in a few large economies remains weak. Whilst global activities continue to strengthen, dispersion of outcomes is large, given the uncertainty surrounding US policies and its global implications. Asia remains the global growth engine. Turning to the Pacific region, economic growth is moderate and inflation remains low. External positions showed diverging results driven by low oil prices and natural disasters, but reserves are generally comfortable. Monetary conditions remain accommodative and credit growth relatively rapid while fiscal positions across the region slightly deteriorated in 2016. Mr. Sumi also noted that limited capital spending has led to infrastructure gaps in most PICs. In addition, Small Island States will continue to face risks related to climate change, particularly natural disasters and external economic spillovers.

Agenda 4: Introductory Comments by New PFTAC coordinator

Presented by: **David Kloeden, PFTAC Coordinator**

4. **Mr. Kloeden, PFTAC, began his presentation by** thanking the government of the Solomon Islands for facilitating and hosting the meeting and thanked Governor Rarawa for chairing this year's Steering Committee meeting. He also extends his gratitude to all other Governors, Ministers, permanent secretaries, other government officials, donors and development partners including ADB, EU, and the governments of Australia, New Zealand, and the Republic of Korea, Regional organizations, IMF and PFTAC colleagues for their willingness to attend this very important and strategic meeting.

5. **Following his introductory remarks, Mr. Kloeden briefly talked about himself.** He was appointed the new PFTAC Coordinator in early February 2017. He thanked Mr. Scott Roger, the former PFTAC coordinator and the PFTAC team for their effort in making PFTAC such a great success that is so highly valued by all stakeholders including member countries and donor partners. Mr. Kloeden came to PFTAC with almost 25 years of experience with IMF Capacity Development, predominantly in the fiscal space, particularly with revenue administration at the IMF's Fiscal Affairs Department. He has been a revenue administration advisor in various countries for almost 10 years. Most recently, he was the coordinator at the Caribbean equivalent of PFTAC, namely the IMF's Caribbean Regional Training Assistance Centre (CARTAC) located in Barbados serving 20 (soon to be 23) Caribbean member countries. Mr. Kloeden concluded his opening remarks by assuring member countries and donor partners that

he looked forward to a productive time at PFTAC, is willing to learn from and respond effectively to member countries and stakeholders.

Agenda 5: PFTAC Overview FY2017

Presented by: Mr. David Kloeden, PFTAC Coordinator

6. **PFTAC Coordinator, Mr. Kloeden provided an overview of the PFTAC FY2017 performance and outcomes.** This presentation drew on the just published PFTAC FY2017 annual report, specifically on the key program highlights and outcomes, resource utilization and expected year-end outturn, FY17 versus recent year outcomes, and TA delivery by country. Mr. Kloeden began his presentation by acknowledging Mr. Scott Roger, his predecessor, and his team for their invaluable efforts to prepare the FY2017 annual report. The FY2017 covers the period from May 2016 to end of April 2017.

7. **PFTAC FY2017 is a year of transition marking the end of one financing phase, Phase IV and the start of Phase V.** Phase IV ended October 31, 2016, six months through 2016/17 fiscal year. Despite the good efforts, PFTAC ended Phase IV with some unspent funds totalling approximately US$480,000, equivalent to around one month of full operations. This figure is subject to change until all accounts are finalized. Donors may roll over their remaining funding to Phase V or will receive a pro-rata refund. Phase V started November 1, 2016 and will run for 66 months to April 2022. The focus of PFTAC in FY17 was to finalize the new Program Document which sets out the proposed continuation of PFTAC's capacity development in the Pacific over the period November 2016 to April 2022. PFTAC went through a year-long process to agree and articulate Phase V priorities, resource needs, and targeted budget. Following the release of the Program Document, PFTAC will now focus on fundraising efforts to materialize the Phase V program objectives. In addition, PFTAC also experienced staff changes, starting with the appointment of the new coordinator in February 2017 and the rotation of some experts.

8. **Following the introductory remarks, Mr. Kloeden proceeded to review each of PFTAC's focus areas;**

i. Regarding Public Financial Management (PFM), the focus has been on delivering sustainable results by supporting the Public Expenditure and Financial Accountability (PEFA) assessments and reform priorities, provide technical support and training on legal frameworks, Budget Execution and Controls, cash management, and managing fiscal risks.

ii. In revenue policy and administration, PFTAC continued to provide support on modernizing revenue legal frameworks, effective organizational and governance arrangements, and strengthen capacity in tax compliance and revenue administration. PFTAC also strengthened collaboration with regional agencies such as PITAA.

iii. Regarding Financial Sector Supervision, the focus was on strengthening capacity to address financial sector vulnerabilities, providing technical assistance (TA) to enhance supervisor capacity and developing innovative supervisory frameworks. The focus has been shifting to onsite examination and oversight of non-bank financial institutions, including credit unions and the insurance sector.

iv. In terms of macroeconomic statistics, PFTAC continued to help enhance quality and timeliness of national accounts statistics through improving statistical methodologies, compilation processes, and data dissemination. TA also provided modest support on external sector compilation, and efforts in improving government finance statistics (GFS) compilation and dissemination.

v. In macroeconomic analysis, the focus was on improving capacity to enhance the use of appropriate models for sound macroeconomic analysis and medium-term policy analysis. This was achieved through technical support of TA and providing trainings on GDP compilation and forecasting as well as revenue forecasting.

9. **The number of training events and workshops offered by PFTAC during FY17 was less compared to previous years,** but still important to overall capacity development objectives. There were only nine trainings/workshops organized due to financing issues towards the end of Phase IV.

10. **PFTAC's FY2017 outturn showed a shortfall compared to plans.** In terms of the overall budget of US$6.82 million, the estimated outturn was US$4.43m, representing only 65 percent of the budget. As expected, the bulk of the spending was allocated for resident advisors and short term experts, followed by workshops and travel costs. In terms of activities measured by field person days, the total in FY2017 was 1,692 days, compared to 2,513 planned days. The two key factors that affected the FY2017 outturn were phase transition and staff changes/rotation. These had an overall impact on TA delivery with a scaling down of some modalities such as workshops. Comparing the FY2017 overall outturn to FY2016 and FY2015 in terms of activities measured by person days, PFTAC executed 33 percent less than planned activities, versus an over execution in previous years. Mr. Kloeden also highlighted the largest users of direct TA (measured by person field days) by program and country showed that the major beneficiaries of PFTAC resources (10% or more of resources) were Vanuatu (13.9%) and Fiji (10.8%) with most resources on revenue administration, macroeconomic analysis, and PFM. All other countries utilized less than 10% of resources, although these will change overtime as country needs and demand for TA shifts as well as available resources. Solomon Islands, Nauru, PNG, Cook Islands, Timor-Leste, RMI, Tonga and FMS were moderate beneficiaries (5% < 10% of TA resources) and Samoa, Kiribati, Tokelau, Tuvalu, Niue and Palau received more limited and targeted TA.

Agenda 6: Member Country Contributions

Status update

Presented by: Mr. Savenaca Narube, Consultant

11. **Mr. Savenaca acknowledged PFTAC for its assistance to member countries in the region.** All member countries value the ongoing support from PFTAC and the donor partners. Mr. Savenaca gave a quick recap on the meeting held in Apia in 2016 during which member countries agreed to contribute 10 percent of PFTAC's Phase V budget. Contributing gives a strong signal to other member countries, the donor community and even other funding bodies globally that PICs highly value PFTAC assistance as useful, relevant, and addressing PICs development priorities. Funding remains the key factor for PFTAC to deliver its assistance. Mr. Savenaca noted that the current level of donor funding and assistance is not guaranteed in the future. Therefore, the member countries' commitment to financially contribute is very important to ensure the continuation of PFTAC.

12. **Following the review of the issues raised in Apia, Mr. Savenaca addressed the status of member country contributions**. Currently, there are 16 country members of which 12 countries have agreed to contribute based on the distributed schedule. Only eight countries have signed the Letters of Understanding (LOU). Mr. Savenaca urged the remaining country members to confirm their commitment as soon as possible to ensure PFTAC planned activities can be implemented.

<u>**Discussions**</u>

13. **Mrs. Atalina, Governor of Central Bank Samoa inquired about the basis for member contributions**. Mr. Savenaca explained that there were four factors agreed during the 2016 Apia meeting: (i) Gross Domestic Product (GDP), (ii) GDP per Capita, (iii) the use of resources and, (iv) the percentage of contribution to individual country's government expenditure. Obviously, these do not cover all other issues faced within the region, so Mr. Savenaca was been tasked to re-look at these criteria.

14. **Hon. Minister John Sala, Ministry of Finance and Economic Management, Vanuatu, questioned the timeline for member contributions.** He noted that government budget and payment processes normally take time. He proposed PFTAC set a timeline for members to pay their contributions to avoid delays. Given various issues faced by individual member countries with different budget cycles and timelines, PFTAC can accommodate flexibility in each country's contribution timeline. Mr. Kloeden added that member countries are encouraged to contribute before the start of PFTAC's fiscal year (May – April). Mr. Holger Floerkemeier, Deputy Division Chief, Institute for Capacity Development, noted that it is important for member countries to confirm their commitment to contribute to gauge liquidity of the Centre and to ensure PFTAC

programs run smoothly. In conclusion, Mr. Savenaca emphasised the importance of the four member countries who are yet to confirm their commitment to contribute as well as the remaining countries who are yet to sign the LOUs.

Agenda 7: PFTAC Phase V Transition Issues

Result Based Management (RBM) Issues

Presented by: **David Kloeden, PFTAC Coordinator**

15. **PFTAC's work programs over the next five and half years (November 1, 2016 – April 30, 2022) are developed jointly with member countries, donor partners, and other Capacity Development (CD) providers.** This presentation provided an overview of Phase V strategic objectives, highlighted changes under Phase V while noting what remains the same, and provided a financial update and issues for consideration. This presentation also gave an overview of the IMF developments with Result Based Management (RBM) Log Frames drawing on CARTAC experiences with RBM.

16. **In Phase V, PFTAC's Capacity Development focuses on three strategic objectives:**
    i. **To strengthen macro-financial resilience to natural disasters and economic shocks.** PFTAC will provide CD to support integrated fiscal and budgetary management to better plan and manage costs associated with adverse shocks, especially natural disasters given the region's extreme vulnerability. PFTAC will also provide support to strengthen crisis management arrangements in both the fiscal and financial domain.
    ii. **To enhance macro-financial sustainability.** PFTAC will promote the use of longer-term frameworks to analyse fiscal and external debt sustainability, manage fiscal sustainability risks stemming from demographic developments and public health costs, and enhance domestic revenue mobilization to reduce aid dependency.
    iii. **To facilitate inclusive economic growth** by promoting medium-term fiscal and budgetary frameworks and policy focus on investment, education and health care and other areas having significant impact on economic development, inclusiveness, and gender equality. PFTAC will also provide support to promote private sector development through fair and predictable tax systems and sound procurement processes. Furthermore, PFTAC will facilitate robust non-bank financial sector development to enhance financial inclusion, and work with development partners to facilitate timely collection and reporting of good quality data to measure inclusiveness, gender equality and measures to promote growth.

17. **Following his discussions on the strategic objectives of Phase V, Mr. Kloeden highlighted some of the elements that remain the same for PFTAC operations.** The PFTAC model continues to be strongly supported and endorsed by member countries and donor partners in terms of team resources and composition, particularly the number of resident advisors, the mixture of Capacity Delivery modalities (LTX, STX,

IMF HQ input and workshops), and collaboration with regional entities and development partners. Finally, Reserve Bank of Fiji will continue to host PFTAC.

18. Mr. Kloeden continued to review the new changes under Phase V:

i. Member contributions – as discussed, members will voluntarily finance 10 percent of PFTAC's budget bringing PFTAC into line with nine other IMF RTACs.

ii. Steering Committee Governance – chairmanship will now rotate annually with the host venue country.

iii. Fiji will now contribute financially rather than past provisions of in-kind office facilities and IMF will pay rent to the RBF.

iv. Result Base Management (RBM) system is enhanced through a new RBM framework that is applied to all IMF CD activities regardless of financing that will considerably improve the quality and availability of information to monitor TA and training.

v. Internal IMF Financial Arrangements – budgets now devolved to departments, with a little less local autonomy for travel and seminars.

19. Mr. Kloeden, PFTAC, provided the Phase V budget update. Under the baseline scenario, PFTAC's budget for the next five and a half years is estimated at US$35.3 million based on a conservative assessment of potential funding from current donor partners and the 10 percent from members. Under this scenario, the proposed budget envisages a reduction in the number of resident advisors from the current seven advisors in the first two – three years to only six experts in years four and five. An alternative "aspirational budget" scenario aims to maintain PFTAC's CD delivery capacity throughout Phase V and assumes that all seven resident advisors will be retained plus some moderate scaling up in other TA modalities such as STX and seminars. The cost for this scenario is estimated at US$39.7 million.

20. Further scaling up of PFTAC deliverables would be possible, if funding increased beyond the aspirational budget. The following proposals for additional CD provisions could be considered as the highest priorities, if sufficient funding is obtained during Phase V;

- Third Statistics expert (+$2.7m)
- Second Macroeconomic expert (+$3.7m)
- Second revenue expert (+$5.0m)
- Additional local staff member for RBM, outreach, accountability (+$0.3m)

21. PFTAC's planned activities in Phase V depend largely on the availability of funding. Total expected contributions from all member countries under Phase V are US$3,888,500. So far, eight member countries have signed the LOUs that commit to total contributions of US$1,413,500. A further eight member countries are yet to finalize their commitments and LOUs that would total US$2,475,000. In terms of donor financing, the governments of New Zealand and Korea, and ADB have already made firm commitments with signed LOUs, with US$8.5m, US$2.5m and US$0.8m, respectively. Australia is expected to finance US$7.7m with its commitment pending finalization. Under the 11th EDF, the EU is expected to contribute US$6.4m, although subject to change. Overall, the total commitment including signed and pending LOUs (including the EU) is equivalent to US$29,788,500 with a funding gap of US$5.5m against the baseline budget and US$9.9m against the aspirational budget.

22. **Ms. Marga Peeters, EU Delegation, Fiji, added that the EU is currently discussing its financial support to the region under the 11th EDF regional envelope.** She noted that apart from this, the EU is also providing budget support to most countries in the region and certainly promotes engagement from PFTAC in the region. The EU is currently reviewing its progress under its 2014 – 2020 program.

23. **Mr. Holger Floerkemeier, Deputy Division Chief, IMF, also added that PFTAC is currently working with other development partners in mobilizing regional funding for PFTAC in coming years.** The IMF is looking at engaging other development partners such as Japan, China, USA, and Singapore. Mr. Floerkemeier noted that the member countries' support and contribution towards PFTAC as well as communicating the value of PFTAC assistance with other development partners contributes to the IMF's effort to mobilize regional funding.

24. **Mr. Kloeden, PFTAC, further discussed key Phase V issues for stakeholder consideration.** One of the major issues is the governance of the steering committee. There should be simple operational guidelines to provide guidance on membership, roles and responsibilities of the chair, decision making processes, and quorum. These must be consistent with SFA and Essential Terms and Conditions set out under Annex I and II to the LOU in the Program Document. In addition, a host country Memorandum of Understanding (MoU) is needed as Mr. Kloeden noted that PFTAC is the only one of ten IMF RTACs that does not have an MOU with its host government. Finally, stakeholders could consider ideas for additional CD modalities and greater outreach and awareness, with PFTAC possibly benefiting from successful approaches in the Caribbean that are also relevant for the Pacific region.

25. **Mr. Kloeden concluded his presentation by discussing the RBM objectives of the IMF and how an RBM framework helps measure how CD activities achieve their objectives.** RBM intensifies the focus on outcomes and, as a strategic management tool, helps monitor the performance of TA. It also promotes clarity and consistency in reporting by producing standardized results. Most importantly, the IMF uses the RBM framework to better manage its projects by tracking the progress and costs to ensure better linkages across information systems.

26. **RBM needs for RTACs can be complex given the multiple sectors, countries, and stakeholders.** RBM can be used to monitor the performance of plans endorsed by the SC, assess program performance, and to underpin resource allocation (by topics, countries or department). It also provides a clear picture of topic, country, and regional performance to support dialogue with country authorities and area departments and provides quality data to underpin internal and external evaluation to avoid overlap with IMF HQ or other bilateral projects. Mr. Kloeden also demonstrated how the RBM framework has been used at CARTAC to measure progress towards achievements of milestones and produce standard reporting by program and country. Mr. Kloeden draw on some implications for PFTAC from CARTAC.

27. **Mr. Kloeden concluded his presentation by highlighting some insights from the Caribbean on building and sustaining regional capacity.** These includes additional CD modalities such as attachments and enhanced attachment to facilitate peer-to-peer learning, a long-running Graduate Internship Program, and innovative approaches such as online training, induction training, and applied research. There are also opportunities to improve PFTAC governance and increase outreach and visibility on PFTAC efforts and achievements in the region.

Agenda 8: PFTAC FY2018 Work Program

Overview of program and budget proposed capacity development

Presented by: **David Kloeden, PFTAC Coordinator**

28. **Mr. Kloeden, PFTAC Coordinator, presented a brief overview of the proposed work program for FY2018.**
    i. **Regarding PFM,** PFTAC's CD and training will focus on supporting PFM reform implementation based on PFM roadmaps and PEFAs; stronger legal frameworks; support stronger budget preparation with more integrated planning and budgeting; improved budget transparency and execution; and strengthened debt, asset, and risk management. PFTAC will also help strengthen budget monitoring, reporting, and accountability.
    ii. **Regarding revenue policy and administration,** PFTAC will deliver ongoing support to improving tax administration management and governance and strengthening implementation and efficiency of tax administration core functions.
    iii. **Regarding financial sector supervision (FSS),** PFTAC will focus on CD to enhance bank supervision frameworks, assist in reviewing and updating of bank's prudential standards, and strengthen members' capacity for supervising non-bank financial institutions.
    iv. **Regarding macroeconomic analysis,** PFTAC will continue to support ongoing development of integrated macroeconomic frameworks tailored to country and

capacity specifics, support multi-period planning to facilitate coherent medium-term projections, and deliver support to develop capacity on local debt sustainability assessment, taking account of disaster implications.

v. **Regarding macroeconomic statistics,** PFTAC will continue to deliver assistance to improve source data for compilation of National Accounts, with a focus on GDP rebasing, developing additional GDP measures and improving methodologies. PFTAC will also assist with compilation and improvement of GFS statistics and strengthen dissemination of National accounts and GFS data for policy analysis within government and externally.

29. **Mr. Kloeden explained the process to develop the FY2018 work plan.** It is an iterative process that begins with member country consultations. Whilst the program is demand driven, PFTAC must ensure that proposed plans and activities are consistent with the Fund's priorities (APD, TA Departments). PFTAC also maintains ongoing engagement with donor partners, bilateral projects, and various forums. Finally, PFTAC resident advisors are in constant contact with their local counterparts.

30. **Mr. Kloeden provided an overview of PFTAC's FY2018 resources and budget.** The total estimated budget for FY18 is US$6.51m, 47 percent more than the estimated FY2017 outturn of US$4.43m. As expected, the budget for resident advisors (LTX) accounted for the largest share with US$2.21m, followed by Short-Term Experts (STX) with US$2.0m, estimated budget for workshops and seminars is US$0.9m, travel budget is estimated at US$0.32m and other costs accounted for US$1.08m. In terms of TA activities measured by field person days, the total planned for FY18 is 2,577 days, 52 percent more than the estimated FY2017 outturn of 1,692 days. Mr. Kloeden also provided a summary of the planned regional workshops and trainings for FY2018 and showed a comparison between FY18 plans by countries and programs against FY17 outturn. Fiji and Vanuatu remain the top beneficiaries of PFTAC resources (utilizing > 10%), moderate beneficiaries (5% < 10%) include Samoa, Solomon Islands, Kiribati, PNG and RMI, with Tonga, Cook Islands, FSM, Palau, Nauru, Tuvalu, Timor-Leste, Niue and Tokelau receiving targeted support.

31. **Mr. Kloeden concluded his presentation by explaining the process to finalize the FY2018 work plan.** PFTAC's work plan is still in draft form and subject to change following ongoing discussion at IMF HQ between APD and TA departments. Also, there is still space for adjustments following stakeholders' feedback at this meeting, subject to resource constraints and APD and TA department concurrence. **An updated work plan incorporating final adjustments will be circulated with the May quarterly report.**

Agenda 9: Public Finance Management

Presented by**: Ms. Chita Marzan, & Mr. Richard Neves PFM Advisors**

32. **Mr. Richard Neves, PFM advisor, began the presentation by reviewing the objective of PFM.** Adhering to the new PEFA framework, the focus areas of PFM include laws and institutions; budget preparation; budget execution and control; coverage and quality of fiscal reporting; integration of asset and liability management; and identification, monitoring, and management of fiscal risks. Mr. Neves noted that other bilateral and multilateral programs are also contributing towards achieving PFM objectives in member countries so it is important to maintain continued coordination and engagement across the different providers to achieve success. He also highlighted that there have been some improvements by member countries particularly in two of the core PFM function areas. This includes the coverage and quality of fiscal reporting driven mostly by the improvement in the timeliness of reporting, and budget execution and control driven by improvements of payroll controls. Based on PEFA, most countries remained weak in asset management; policy based budgeting and managing fiscal risks. However, member countries are making progress in achieving PFM objectives, although at the slower pace.

33. **Ms. Chita Marzan, PFM advisor, continued the presentation by outlining the FY2018 work plan PFM priorities beginning with improving institutions and frameworks.** PFTAC will assist the Cook Islands, Solomon Islands and Fiji on updating financial instruction. These countries have already enacted PFM laws. Likewise, PFTAC will assist with PEFA self-assessments in Kiribati, Palau, and Tokelau and provide support to develop PFM road maps, particularly in FSM, Kiribati, Nauru, Palau, and Tokelau. PFTAC will ensure that PFM CD activities are well coordinated with other development partners.

Agenda 10: Revenue Admin. & Policy

Presented by: **Mr. Stan Shrosbree, Revenue Administration Advisor**

34. **Mr. Stan Shrosbree, PFTAC Revenue administration advisor, began his presentation with an overview of the revenue program delivery in FY2017.** In total, 38 missions were conducted, equivalent to 419 field person days. Four regional workshops were held in FY2017 with 85 officials trained. Mr. Shrosbree noted that most member countries have made improvements in their legal frameworks with significant achievements, and other good progress including:

   i. Strengthened management and governance – Fiji, Niue, Palau, Samoa, Tonga, and Vanuatu
   ii. Risk Management – Fiji, Samoa, Tonga, and Vanuatu

iii. Strengthening Core tax function – Fiji, Kiribati, Marshall Is, FSM, Palau, Tonga, and Vanuatu

35. **Mr. Shrosbree concluded his presentation by highlighting the Revenue Administration priorities for FY2018:**
    i. Strengthen revenue administration management and governance arrangements (Fiji, Kiribati, RMI, FSM, Niue, Palau, Samoa, Tuvalu)
    ii. Strengthen core tax administration functions (Fiji, Kiribati, RMI, FSM, PNG, Niue, Palau, Samoa, Tonga, Vanuatu
    iii. Promote TADAT and ISORA as valuable tools to improve revenue administration

Agenda 11: Financial Sector Supervision

Presented by: **Mr. Ben Stefanou, Financial Sector Supervision Advisor**

36. **Mr. Benjamin Stefanou, PFTAC FSS Advisor, provided an updated of the FY2017 financial sector supervision outcomes and a brief outline of the planned activities for FY2018.** In FY2017, 17 missions were conducted in the region, complemented by four regional meetings comprising 242 mission days (88 LTX days and 154 STX days). By sector, 61 percent of total mission days were related to Banking and 39 percent for Credit Unions. From another perspective, 37 percent of activity related to supervisory frameworks, 36 percent on regulatory matters and 327 percent on-site activities. Mr. Stefanou noted most PICs had made good financial sector supervision progress.

37. **Mr. Stefanou concluded his presentation by discussing the FSS FY2018 focus areas.** He noted that the Centre will continue to assist authorities develop supervision framework enhancement strategy and medium term technical assistance plan to:

i. Identify structural weaknesses and gaps in infrastructure

ii. Assess quality of infrastructure

iii. Assess ability of supervisory staff to implement framework

iv. Assess efficiency and effectiveness of the operation of the framework

Agenda 12. Macroeconomic Statistics

Real Sector Statistics (RSS) and Government Finance Statistics (GFS)

Presented by: **Mr. Richard Wild, Statistics Advisor PFTAC, and Mr. Barend De la Beer, Government Finance Statistics Advisor, PFTAC**

38. **Mr. Richard Wild provided a brief background of PFTAC support for RSS since 2016.** There were two RSS long-term advisors employed until late in Phase IV. In FY2017, PFTAC focused on RSS with limited ESS and GFS support. For FY2018, the focus will be more on National Accounts compilation and less on the ESS, with 19 missions and two workshops planned.

39. **Mr. Wild highlighted key results for FY2017 from 15 National Accounts missions (10 delivered by LTX and 5 by STX)**. Capacity building continued from the core themes of FY2016 with further advances in the use of tax and other admin data (e.g. PNG and Tonga) rather than weak resource-intensive surveys. In terms of HIES data, there were improvements in the quality of informal sector estimates in the Solomon Islands, Tokelau, and PNG. Cook Islands and Fiji are closer to publishing quarterly GDP estimates as well as significant progress on rebasing in Samoa and Solomon Islands. Finally, four ESS missions were delivered to Cook Islands, Nauru, PNG and Tonga covering 83 STX person days.

40. **RSS plans for FY2018 are slightly larger with 17 missions (11 by LTX and 6 by STX) and two workshops planned.** The core FY2017 themes will continue including capacity building for all countries; enhanced use of admin and HIES data for Tonga, Vanuatu, and PNG; continued help with quarterly GDP work in Fiji and Cook Islands; and GDP rebasing in Kiribati, Nauru, and Samoa. Additionally, there will be new focus on reporting and dissemination of data, and further multi-sector sub-regional workshops for multi-agency staff of NSOs, Revenue, Finance and Treasury departments. Finally, a new virtual regional TA coordination group 'PESTAC' will better assess gaps and overlaps in TA and provide more consistent advice in statistics.

41. **Going forward, Statistics TA is defined and monitored using the IMF's new RBM framework.** For RSS, there are 22 RBM outcomes, including training, methods, data and dissemination. These outcomes are not necessarily new with nine already used by PFTAC.

42. **Mr. de la Beer made a presentation on GFS activities funded by PFTAC.** He noted that when a project supported under the Japan Administered Account (JSA1) ended in 2015 many PICs expressed their needs for continued GFS support and funding through PFTAC. Hence, Mr. Barend was recruited in March as a new resident GFS advisor under phase V. The PFTAC GFS program aims to continue strengthening the compilation and dissemination of GFS based on international standards. For the Japan funded project, only PNG continues to be supported by JSA2 until April 2019.

43. **For GFS FY2017 results, support was provided through seven missions delivered by short-term experts equal to 103 person days.** Focus was on improvements in collection and finding source data and dissemination of all high frequency data. Six PFTAC member countries could submit annual GFSY data, namely Kiribati, Marshall Islands, Micronesia, Palau, Samoa, and Solomon Islands. PFTAC is also looking at improving the coverage to include the other sectors for the general government. Kiribati and Cook Islands provided consolidated general government statistics. Several countries produced unconsolidated general government statistics. Remaining effort is to examine the detail of all the sections that are inter-changed between various sectors and level of government. PFTAC has started identifying the sections with some reconciling issues to consider first. The general issues identified from the missions are capacity related with respect to compilation, dissemination, and expansion of statistics coverage. There are also technological challenges with hardware and software compilation and reporting; these issues are to be addressed going forward.

44. **GFS plans for FY2018 comprise 13 missions (10 by LTX and 3 by STAX) and one regional and another sub-regional workshop equivalent to 175 person days.** Priority assistance will be given to member countries that have not received TA under the JSA1 such as Nauru, Tonga, Tuvalu, and Vanuatu. The aim is to investigate data sources and improve the compilation and dissemination of high frequency GFS, IFS and PSDS. Countries also need assistance with data that are already available for compilation and completion. Other areas include resolving issues pertaining to general government consolidation, improve metadata, and classification methodology in accordance with international statistics standards. Finally, a stock take will be completed of all statistical issues faced in the region to identify TA needs. In concluding his presentation Mr. de la Beer noted the push from the Asia-Pacific Department to adopt the GFS 2014 framework in the presentation of Article IV reports, making it important for PICs to have their data presented in that format.

Discussion

45. **Mr. Wild responded to a question that in FY2017 PFTAC provided significant training on using HIES data** that would continue in FY2018 going forward including rebasing.

46. **Mr. Simeon Athy, Vanuatu, noted his concern on the sustainability of past macroeconomic statistical training.** He expressed concerns about the value of whether significant amounts of past training had an impact that was sustained with observed improvements. Mr. Wild responded that more recent TA is much more practically oriented and not just theoretical as in the past. Challenges in the region to sustain improvements from TA include constant moves by staff from statistics office to better paid agencies, and the time it takes for staff to understand and master their responsibilities without repeating the same mistakes.

47. **Mr. Barend agreed with Mr. Wild regarding trained staff moving to other higher paid positions in other national agencies.** However, he highlighted that PFTAC now is trying to develop a short manual to document the steps or process on how to compile the data so that when trained staff leave the organisation at least there is something that will guide replacement staff in the compilation of statistics.

48. **Governor Barry Whiteside, Fiji contributed on the issue of renewed data dissemination focus highlighted in the two presentations** and informed the committee that the IMF is helping countries to implement general data dissemination systems. The IMF will also help create national summary pages for the dissemination of data using latest technology where all users including international agencies pull data direct from a website.

49. **Mrs. Maiava Atalina Aunuu-Enari, Samoa, observed that two-week TA mission too short.** While Mr. Wild sympathized with the observation, he noted that a two-week

mission takes a month to prepare in addition to possibly several more weeks after the mission to complete the analysis and report writing given the need for review by IMF headquarters before finalization.

Agenda 13. Overview of Steering Committee Day Agenda

Macroeconomic Programming and Analysis

Presented by: **Ms. Iris Claus, Macroeconomic Advisor, PFTAC**

50. **Ms. Claus provided an overview of the FY2017 Macroeconomic Forecasting program and the proposed work plan for FY2018.** Eleven missions were undertaken in response to requests in FY2017 involving 168 mission days compared to 134 mission days planned. Ms. Claus highlighted that no short-term advisor missions occurred in FY2017. The program responded to requests for assistance to develop revenue reform options, medium-term budgeting, and upgrading macroeconomic programming frameworks. PFTAC also organised a sub-regional workshop on compiling and forecasting gross domestic product (GDP), inviting participants from the statistics offices, ministries of finance, tax offices, and central banks. Two more workshops were planned before the end of FY2017, one in collaboration with ADB and JICA on building resilience to natural disasters, and another in the Northern Pacific on compiling GDP and forecasting revenues.

51. **Ms. Claus highlighted some key results for FY2017 including several PICs that now have macroeconomic programming frameworks for empirical analysis of economic developments.** Robust capacity has been built with staff in Vanuatu for providing evidence-based policy advice. For RMI the framework contains detailed public expenditure forecasts from the budget that underlie medium-term fiscal projections. The framework can be used to assess the implications of some Amended Compact Agreement grants terminating in 2023. Fiji was the first country to develop a macroeconomic framework with the framework now including financial stability indicators. The interdisciplinary workshops organised have been valuable for sharing knowledge and skills, and harmonizing PFTAC training and technical assistance.

52. **The Macroeconomic priorities for FY2018 will continue to support the use of macroeconomic programming frameworks** in budget development, policy analysis, debt sustainability and external vulnerability assessments for the Cook Islands, Fiji, RMI, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. To enhance GDP compilation and forecasting, a workshop will be held for the benefit of the Cook Islands, Kiribati, Nauru, Niue, Timor-Leste, Tokelau and Tuvalu. To enhance forecasting and management of fishing revenues a workshop is planned for the benefit of Cook Islands, Kiribati, RMI, FSM, Nauru, Palau, PNG, Solomon Islands and Tuvalu.

53. **A priority focus in FY2018 is to incorporate demographic changes into fiscal projections for which a regional workshop is planned.** PFTAC will also foster inter-agency and cross-institution collaboration by working with the IMF Institute for Capacity Development and Singapore Regional Training Institute to better tailor capacity development activities to Pacific countries.

54. **Ms. Claus observed that macroeconomic success depends on** strong management support for empirical based analysis. Development and maintenance of empirical tools are included in work programs and job descriptions. This resulted in well managed deadlines with staff given the opportunity to present and publish their analyses. In terms of forecasts, the uncertainty due to preliminary data/tools can still be factored into the policy advice. While PFTAC can assist with analysis, policy options and advice must always be developed by national staff. Finally, collaboration across the public sector is important.

March 16, 2017

Agenda 14. Overview of Steering Committee Day Agenda

Three topical sessions of presentations and panel discussion

Presented by: **Mr. Denton Rarawa, Governor, Central Bank of Solomon Islands**

55. **Mr. Rarawa presented an overview of the day's agenda, focused first on macroeconomic statistics building on from the presentation the previous day,** then on to domestic revenue mobilization and then finally Public Financial Management. The sessions feature IMF initiatives on statistics, including experiences of Samoa and Fiji on statistics and tax reforms, donor view on tax reform and the Cook Islands and Solomon Islands sharing their experience on their PFM reforms. At the end of the day everyone was invited to attend the closing dinner hosted by the host country, Solomon Islands. Mr. Rarawa then invited Mr. Richard Wild to chair the first session.

Agenda 15. Macroeconomics Statistics

Presented by: **Mr. Richard Wild, PFTAC National Accounts Statistics Advisor**

56. **Mr. Wild PFTAC, welcomes everyone to the second day of the PFTAC steering committee meeting and introduced the presenter for first for the session Mr. Louis Venter, from the IMF' Statistics Department to talk about the IMF D4D initiative.**

Agenda 16. IMF Initiative on Data for Decisions (D4D)

Proposal for a D4D Fund

Presenter by: **Mr. Louise Venter, Deputy Division Chief, Statistics Department IMF**

57. **Mr. Louise Venter begin his presentation by providing a brief background of how the IMF provides Technical Assistance (TA) in statistics.** This includes through RTACs, through bilateral projects funded by donors, as well through the IMF budget. Mr. Venter then acknowledge the big donor partners such as the governments of Australia (DFAT), Japan, the Netherlands, and Sweden. Mr. Venter informed the committee that some of the bilateral agreements and projects for PICs are coming to an end such as the BOP support from Japan. Hence, the IMF has in place a Medium-Term strategy to provide capacity development (CD) going forward with four components.

58. **Mr. Venter's presentation then moved to the D4D initiative**. The D4D fund will be used to identify data gaps and data quality concerns. This will be complementary to the advice that long term experts are providing to beneficiary countries for decision making. Another big advantage of this fund is the ability to be flexible to react to a country's capacity and readiness to accept CD based on an assessment of their needs. The objective of the D4D Fund is to put more and better data in the hands of decision makers to enhance evidenced based macroeconomic policies. The beneficiary countries of the D4D Fund are the Low Income and Low/Middle Income countries around the world. The target period is between FY2019 and FY2023 for which fund raising is underway for US$ 30 million.

59. **The D4D comprises four modules**. The first is a Financial Access Survey (FAS). The second module addresses data needs and quality concerns in the areas of Real Sector Statistics (RSS), External Sector Statistics (ESS), and Government Finance Statistics (GFS). The third module provides online learning through eight foundational statistics courses. The fourth module will provide ICT support services including advice on IT data systems and software and is very new to the Statistics Department in response to requests by member countries.

60. **Under FAS, an annual survey of 189 countries will be conducted with results published on the IMF website.** FAS will continue with an annual survey of the entire Fund membership and will also expand to new areas to enhance methodologies, provide research and implementation support, and enhance access to data and quick dissemination.

61. **RSS is the first of three parts of the second module to develop high frequency indicators of economic activity,** develop source data for national account and statistics, support interagency cooperation, and develop Real Property price indexes. ESS, the second sub- module aims to enhance trade statistics, deepen financial support analysis, and provide BOP statistics support in the Middle East. GFS, the third sub module aims to develop high-frequency finance statistics and debt data, enhance institutional coverage, classification, and consistency GFS

62. **Basic online courses are being developed and would be a pre-requisite to undertake any specialised course**. Eight foundational courses will be available online 24/7. The courses are expected to be available in French and Spanish depending on resource availability. All successful participants will receive completion certificates.

63. **As there is currently no direct IT data support and advice** this was identified as a gap in providing support to macroeconomic and financial statistics compilation. Two missions have already been delivered by the IMF to provide this type of ICT support and assistance. Mr. Venter concluded his presentation by thanking the participants for listening.

<u>Discussion</u>

64. **Mr. Richard Neves, PFTAC inquired about how a real property price index could work in the Pacific.** In responding, Mr. Venter noted that the IMF is looking to provide experts to assist in this area, but he noted it is quite challenging as it requires sound basic data which most PICs lack. Mr. Wild added that it will be quite difficult in the Pacific to value land and property at accepted national accounts given most land is cheap or free and houses are built using basic and local materials for which there is no market.

65. **Mr. Tubagus Feridhanusetyawan, IMF asked about the Japanese fund that ended in 2015 on external sector statistics,** and whether there any additional resources or whether the D4D will provide some supplementation so that PICs continue to receive TA. Mr. Venter responded that all TA is demand driven and the Statistics Department is working closely with area departments and if there is a need to improve external sector statistics in the Pacific they will try to increase support.

66. **A question was raised about how long low and low-middle income countries can benefit from TA and whether the engagement is over a period or just one-off interventions**. Mr. Venter responded that the IMF can provide both long term and short term engagement which is one of the advantages of the D4D that is flexible.

67. **Mr. Barend de la Beer, PFTAC, asks about reporting how D4D can engage with all the current reporting systems that exist to submit data**. Mr. Venter replied that D4D is focusing on data dissemination through each country's external website that should lower the reporting burden to IMF as well as international organisation that can then pull the data from the country's website once it is uploaded. Statistics data can be used by government, donor partners, or any organisation for planning and decision making

68. **Mr. Wild asked whether IMF is thinking of including other languages such Chinese, Arabic, or Portuguese for the online training course.** Mr. Venter responds that currently IMF is looking only at French and Spanish translations.

Agenda 17. Statistic work at the Pacific Community

SPC Support to Statistics in the Pacific

Presented by: **Ms. Nilima Lal, Economic Statistician, Statistics for Development Division, SPC**

69. **Ms. Lal provided an overview of SPC support in the Pacific.** She stated that SPC support to PICs for statistics is guided by the Ten-year Pacific Statistics Strategy (TYPSS) which is currently in phase 2 and focused on analysis and dissemination. Phase 1 that continues focuses on collection of data. SPC has provided TA to 22 member countries

70. **SPC provides TA and personal development through workshops,** in-country visits as well as under a south-south facilitation program where staff from one country can visit and assist in another such as recently between staff from Nauru and the Marshal Islands. SPC also facilitates attachments and recently officials from the Tonga Bureau of Statistics visited the Fiji Bureau of Statistics to see how Fiji operates their business registry. SPC also have attachments for young professionals, providing capacity supplementation to small countries. Just recently, SPC received a request for statistics on shipping. Ms. Lal then highlighted the areas SPC provided TA to its member countries which are as follows:
    1. Developing National Strategies for the Development of Statistics(NSDS)
    2. Standards and classifications
    3. Household income and expenditure Survey (HIES)
    4. Prices
    5. Business statistics
    6. International merchandise trade statistics (IMTS)
    7. Agriculture and rural statistics,
    8. Tourism statistics
    9. Demographic health surveys (DHS)
    10. Population and housing census
    11. Education statistics
    12. Use of administrative records for compiling statistics
    13. Civil registration and vital statistics
    14. Dissemination of statistics/information.

71. **Ms. Lal then provided an update of the work of SPC in 2016.** She stated that NSDS were completed for Samoa, Cook Islands, Vanuatu, Solomon Islands, Tonga, and Papua New Guinea and are currently under development for Fiji and FSM. Nauru, Kiribati and Tuvalu have shown interest and requested SPC support. In terms of Pacific Standard Classification of Occupation (PACSCO) was already released and

work is in-progress on the Pacific Harmonised Commodity Description and Coding System 2017.

72. **Assistance were also provided in different areas under the 2020 Round of Pacific Population and Housing Census (2015-2024).** The Solomon Islands is the only country to complete a Demographic Health Survey (DHS). Concerning the HIES, SPC assists National Statistic Offices in the PICs from the design, collection, analysis and to the dissemination of HIES which normally takes 30-36 months to complete. HIES survey were completed in Tokelau, Tuvalu, Tonga, Niue, and Cook Island and HIES preparation (2017/18) is underway for Marshall Islands, Kiribati, Vanuatu, PNG, and Samoa.

73. **Other than the CPI, SPC also collaborates with other partner agencies on producer price index and import and export price index.** On Business Statistics, the focus is on setting up business registries with progress achieved in PNG, Fiji, Vanuatu, and Tonga. SPC has also received requests to set up business registry in other PICs and this year SPC is starting a business registry in American Samoa, Nauru, and the Northern Mariana Islands. SPC also prepared a manual as a development guide for countries that want to develop their own business registry.

74. **SPC also provides assistance in Tourism statistics, such as with Fiji on tourism satellite accounts.** SPC also provides TA on International Merchandise Trade Statistics (IMTS) which saw Trade data released for Tuvalu, Nauru, and American Samoa. In terms of attachment at SPC, a staff member from the Melanesian Spearhead Group (MSG) and two staff from Tonga have participated in the program. There was also a Sub-Regional Workshop on International Merchandise Trade Statistics Compilation, and Export and Import Unit Value Indices held in Guam.

75. **With regards to Education statistics, SPCs partnered with UNESCO for capacity building in PIC education ministries**. For the Sustainable Development Goals (SDG), SPC held a workshop in February 2017 where they finalised 109 indicators. In terms of dissemination, SPC developed a PRISM that countries can use to update data on a regular basis. However, the challenge is getting countries to update their PRISM. Finally, Ms. Lal highlighted four of many challenges SPC face in terms of improving statistics in the region as follows:
    a. The need for a Pacific Regional SDG Indicators data base
    b. Weak resource base of most Pacific NSOs
    c. Access to administrative data and
    d. Countries take time in responding to data requests

76. **Ms. Lal concluded the presentation with the message from the Director of SPC Statistics for Development Division (SDD), Dr. Ofa Ketuu** who acknowledged the

strong collaboration between PFTAC and SPC. SDD also acknowledges the work of former PFTAC Coordinator Mr. Scott Roger and will continue to improve collaboration with PFTAC to ensure TA on economic statistics in the region remain fit for purpose.

Discussion

77. **Mr. Simeon Athy, Vanuatu, commends the important work done by SPC in the Pacific in terms of statistics and** highlighted the importance of collaboration between the SPC Statistic Division and PFTAC. Ms. Lal noted that SPC is responsible for the Forum Economic Ministers Meeting (FEMM) the first week of April 2017 where the agenda includes a regional statistics initiative with PFTAC and SPC providing a joint information paper.

78. **Mr. Richard Neves, PFTAC inquired about other SDG indicators that SPC could consider for the future.** Ms. Lal responded that indicators could cover population, GDP, trade, poverty, and education. Mr. Neves explored whether the responsible ministry would collect education indicator data or other associates. Ms. Lal, said if data is available from the ministry it could be used so as not to duplicate data collection.

79. **Mr. Loi Bakani, PNG asks about the social statistics that are not available from the statistics office** but are available from the departments who are responsible for their collection such as health and education. Ms. Lal indicated that responsible departments usually are involved in mobilizing the statistics data from their respective areas such as education and health.

Agenda 18. Using Tax Date to estimate Samoan GDP

Use of Admin data in quarterly GDP estimate compilation

Presented by: **Mr. Leota Ali'ielua Salani, Acting Chief Executive Officer, Samoa Bureau of Statistics, Samoa**

80. **Mr. Salani provided background on statistics reforms and experience in Samoa.** He mentioned that statistics have been a low priority in the Pacific for years and for Samoa the reform program started in the mid-1990's following the economic recession caused by Cyclones Ofa and Val in 1990 and 1991. Then the Government of Samoa launched various reform programs including Economic and Financial sector reforms, tariff reforms, law reforms, and public administration sector reforms. Statistics were identified as a priority in the Samoa's first Statement of Economic Strategy. Samoa received assistance from the IMF to conduct its first business survey in 1995 which is the core of the GDP estimates.

81. **The Statistic Unit was established under the Economic Policy and Planning Ministry**. Financial resources were provided to fund surveys and TA to build capacity. Experts

helped develop systems and a methodology framework for government statistics. For the major systems to work, quarterly data was needed especially for the major Economic accounts. Much of the information such as the trade statistics were provided by the Central Bank and the CPI by the National Statistics Office. These were all integrated into the framework to provided data for statistics. Today Samoa publishes its quarterly report and can be accessed through its website that has been refined and improved over the years.

82. **Mr. Salani described Samoa's good experience from using administrative data**. They include minimizing costs as they have a very good coverage and are timelier as business must report every two months compared to independent surveys that take longer. The weakness however is that the data are not always consistent with National Accounts concepts such as the coverage, classifications, and definitions. There is also lack of control of data processes for example editing, quality of data, and changes of the rules surrounding the data processing.

83. **The use of administrative data expanded to include VAGST, the National Provident Fund** for the employment and wage data, the Government financial statistics, and bank data from the Central Bank and other financial institutions. This was achieved by the commitment and dedication of all parties as well as sufficient resources including financial, capital and capacity; clarity in responsibilities; strong coordination and cooperation between agencies, as well as strong support from donor partners.

<u>**Discussion**</u>

84. **Mr. Wild, PFTAC commended the Samoan experience and highlighted the need for a well-funded and organised long-term vision.**

85. **Ms. Marzan asked about data archiving as time data may be lost**. Mr. Salani said that Samoa was the first country to develop a national development strategy for statistics that included archiving as part of the strategy that Samoa follows.

86. **Mr. Bakani, PNG asked how Samoa compiles data on property sector statistics.** Mr. Salani replied that Samoa conducted a statistics survey in 2013 that included real estate companies. The property sector statistics were covered under the VAGST register, from the business activity survey, VAGST sales and expenditure survey as well as incorporating other information such as wages and salaries and employment as indicators for extrapolation.

87. **Mr. Harry Kuma, Solomon Islands queried the compilation of GDP using administrative data** rather than the income and expenditure approach. How best can a country's GDP be determined in terms of accuracy of the estimates and timeliness

and useability of the information for international institutions like the IMF? Mr. Wild noted there are pros and cons between the use of survey data versus tax data. Tax data is advantageous for PICs because of geography as many remote islands make it is difficult to conduct survey. Tax data is also more timely and frequent (monthly or quarterly) and covers a range of business compared to surveys. Conversely, concepts do not always align, and there can be challenges in separating current and capital expenditure to employment costings, and some small businesses are omitted. Mr. Salani explained that Samoa uses the production approach where data is easily available on production estimates. With the current help from PFTAC, Samoa is looking at ways to improve the expenditure approach as it is important for the Central Bank and Finance for their forecasting modals. In terms of timing, Samoa releases quarterly estimates three months after the period.

88. **Mr. Bakani, PNG observed that the informal sector in PICs is growing fast and enquired how a good estimate can be made of the contribution of the informal sector.** Mr. Wild explained that the household survey could be a good source as those in the informal sector do not pay tax. Ms Lal added that another method that Fiji uses is labour input that requires good employment figures. In Samoa Mr. Salani noted market fluctuations are used from weekly market surveys of subsistence consumption of agriculture products.

Agenda 19. Domestic Revenue mobilisation (DRM)

Presented by: **Mr. David Kloeden, Coordinator PFTAC**

89. Mr Kloeden, PFTAC provided an overview of the session on Domestic Revenue Mobilization (DRM) that involved three presentations beginning with the experience of Fiji followed by the IMF's finding on tax reforms in PICs, concluding with Australia's perspective on DRM in the Pacific.

Agenda 20. Perspective of Tax Reform/Modernisation: Fiji

Fiji's experience of tax reforms/ modernisation

Presented by: **Mr. Fazrul Rahman, Director Corporate Services, Fiji Revenue and Customs Authority**

90. **Mr. Rahman provided historical context of Fiji's tax system that began in the 1920s**. In the last 20 years, Fiji has experienced significant changes in tax policies, with a formula over the last 10 years of pro-growth tax policies. Mr. Rahman observed that Fiji's experience shows of reducing the income tax rate in 2012 from 31% to 21% has stimulated economic growth by increasing consumption which ultimately leads to increased VAT collection by 5%.

91. **In 2015 there was a major change in VAT through a lower rate and broader based regime that proved very effective for Fiji.** This entailed a reduction of the VAT rate

from 15% to 9% and removal of all exemptions particularly for basic food items. The Government has strong political support to remove exemptions so that everything is be taxed accordingly.

92. **There has been an impact in the overall income distribution in Fiji since the income tax rate was reduced in 2012.** The reduction benefited everybody through the exempt income threshold. The Corporate tax rate was also reduced to not discriminate between resident and foreign companies. Tax returns for employees were eliminated using technology where employers lodge monthly schedules that are reconciled at the end of the year. The employer then knows that the tax paid has been remitted and credited by the tax office.

93. **Mr. Rahman highlighted the strong collaboration between FRCA and the customs administrations of other countries.** Fiji Customs receives daily imports of food items from many countries. From close cooperation with exporting countries, FRCA can identify when the declared value is understated to ensure that the true value is used to determine the correct duty to be collected. By reconciling cash flows from exporting countries, FRCA can track the flow of capital from developed countries to Fiji where multi-nationals are creating local subsidiaries and branches.

94. **The key message from the Fijian tax administration experience is to be vigilant about the way things are done** and at the same time understanding the rights in other countries' tax laws to protect their taxpayers as well. Hence, the tax system needs to be fair and at the same time able to collect tax revenues while protecting tax payer's rights.

95. **An important reform achieved by Fiji with PFTAC help was the introduction of a Tax Administration Act.** This Act simply harmonizes administrative rules of multiple tax laws into a single tax code. Thus, irrespective of the tax type, the administrative rules are same in Fiji. Another important contributor to increased revenue collection was the requirement for everybody in Fiji to have a tax identification number, whether for a driver's license, setting up a business, or opening a bank account. This tax identifier helps the authority to detect and track various tax compliance behaviours.

96. **PFTAC also supported Fiji in the introduction of the new Income Tax Act.** This entailed a rewrite of the rules to define income and new rules for depreciation. In terms of addressing Inconsistencies, a whistle blower policy was introduced giving incentives to report fraudulent acts committed by a tax office employee. The whistle blower who provides such information that leads to prosecution shall get 10% of the collection of the revenue detected.

97. **Concluding the presentation Mr. Rahman also pointed out that Fiji has also developed several home-grown policies that were guided by PFTAC and IMF recommendations.** The policies have yielded results of increased revenue collection. Given these trends, Fiji is optimistic that revenue collections resulted from the reforms are higher than before. Overall the reforms undertaken by Fiji have been effective and efficient and over time has positioned the authority to be able to deal with any future emerging issue.

Discussion

98. **Mr. Neves, PFTAC asked about the reasons for the change in the tax rate and increased compliance, and specifically about the gold card unit.** Mr. Rahman responded that when Fiji introduced the policy in 2012, the loss of revenue was FJ$53m for personal income tax that could be have been as much as FJ$75m without the introduction of the social responsibility tax. This indicates that personal income tax system is fair and progressive to all taxpayers. The change in the income tax rate not only benefited the lower income earners but also those in the higher brackets who can save more from the change. Mr. Rahman explained that the Gold card unit is basically a strategy to improve compliance whereby highly compliant taxpayers in Fiji are issued a Gold Card. The Card gives the taxpayer whole of government benefits such as easier access in the airport when traveling, at the LTA to register a vehicle, registering a company, or doing business at the banks. FRCA has partnered with the whole of government and private stakeholders to benefit compliant taxpayers for their use of the Card.

99. **Mr. Feridhanusetyawan IMF, asked whether there has been a decrease in ministerial or administrative orders that affect specific tax cases.** Mr. Rahman responded that legislative reform in Fiji has seen the removal of ministerial discretion. These improvements complement existing tax holidays for example in the tourism sector, and specific incentives and promotional objectives of the government. Ministerial order has been decreased over the years and there is no discretionary provision in the Income Tax Act where a Minister can waive anyone's tax.

Agenda 21. Presentation FAD/PFTAC review findings of Tax Reforms in Fiji, Kiribati, Samoa, Solomon Islands and Tonga over past decade.

Pacific Island Countries: Review of Tax Reforms and Lessons for future Revenue mobilization

Presented by: **Mr. Peter Mullins, IMF Fiscal Expert, Fiscal Affairs Department, IMF**

100. **Mr. Mullins explained a recent review of tax reforms in the Pacific** led by the IMF and funded by PFTAC. The presentation clarified how the review was done, its findings, and next steps. He noted that as some PICs faced fiscal challenges, having a sound tax system is critical to address those concerns. The issues considered were:

- PICs must raise revenue necessary to address fiscal challenges to support development, reduce poverty, and reduce reliance on foreign aid
- Have administrative reforms strengthened the tax systems?
- How have the reforms impacted revenue, equity, efficiency and simplicity?
- What lessons are learned to guide future TA from PFTAC, the IMF as well as other development partners in the region?

101. **The process comprised a general review of high level tax reforms in the Pacific**, but focused on five selected PICs, namely Fiji, Kiribati, Samoa, Solomon Islands and Tonga. These countries provided diversity in terms of their location in the Pacific and their experience with tax reform. Additionally, the five countries were part of a strategic tax policy and administration review by PFTAC in 2008 which enabled an update of changes in the ensuing 8 – 9 year period.

102. **Indirect Tax Reform dominated developments in the Pacific.** Back in 2008 there were only six countries with VAT, today there are nine countries with others contemplating introducing VAT. Of the six countries, two have increased their VAT tax rate, including Fiji that later decreased it. Other countries have adjusted their VAT threshold while most increased it to reduce the number of taxpayers to be administered. A common observation is that most VAT revenue comes from a small group of the largest taxpayers so the aim is to focus on those in terms of administration and compliance.

103. **Generally, corporate income tax has been stable in the region**, compared to internationally where corporate income tax rates have been declining. The average corporate rate in the region is about 2% higher than the international rate. Personal income tax rates have also remained relatively stable though there have been some changes with respect to the tax-free threshold. Most countries are not concerned about international tax planning at this moment but are focusing more on domestic revenue. Some PICs are looking for other alternative forms of tax revenue other than income tax and VAT such as land and property tax, fines, and other fees and charges. Another issue is deep sea mining that might contribute to potential mining tax in the future.

104. **Pacific tax reform trends include a focus on institutional strengthening and governance.** Tax revenue as a share of GDP in PICs has increased at a slow pace and the mix of revenue has shifted towards indirect taxes. There is clear evidence of modest revenue improvements from tax reforms. Of the five countries, Samoa and Solomon Island have undertaken mostly tax administration reforms, yielding an increase of tax-to -GDP over time. For the Solomon Islands, mining revenue partly contributed when that sector was operational. Three countries had a mix of tax administration and tax policy reforms, with the latter being significant in some cases. For example, Kiribati initially experienced a decline in their tax-to-GDP ratio, but after the country introduced VAT in 2014 with a broadly revenue neutral expectation, the tax reform lead to an increase in revenues.

105. **Personal income tax reform was beneficial by** reducing the burden on low income earners with a small reduction at the higher end. In terms of efficiency, the reforms have generally been administratively positive, although there is still scope for further improvement. On simplicity, some PICs have rewritten their laws and aligned them with good international practises by further simplifying processes for taxpayers and the tax administration.

106. **Lessons learned are that a country can achieve good tax reforms with strong political leadership and support.** The availability of good data is critical for good reform as well as engaging TA for capacity building. On administration, most PICs have good understanding of the modern tax administration concepts and international practices.

107. **For the future, there is likely to be pressure on corporate income tax rates** in the region as they are high compared to other countries. As competitive pressure evolves, some of it can be achieved by reducing exemptions or simply reducing the rates and broadening the base. Going forward, Personal Income Tax rates might need to be reviewed. The introduction of a simple small business tax could be considered in lieu of income tax and VAT, and the introduction of VAT and excises may be necessary for PICs without these taxes. An increase in the tax on sugary products could be considered for health reasons faced in the Pacific. In the medium to longer-term, it may become necessary to address international tax planning by modernizing tax legislation in line with international practices and standards.

108. **With respect to future tax administration reforms**; more investment in PIC tax administration will help mobilize revenue particularly through appointment of more staff given the very low ratio for the Pacific compared to other regions including other small island states. Improving data collection and analysis and allocating resources to headquarters for planning and design monitoring and capacity building are needed. Where systems allow, electronic filing and payment should be mandated for large taxpayers and finally greater utilization of tools such as TADAT indicators to better understand good practice and handle performance and compliance management.

Discussion

109. **Mr. Kloeden observed that VAT had been the main tax reform in many countries around the world, usually with favourable initial results.** He asked if that trend is evident in the Pacific or is there evidence of back-sliding given that in the Caribbean some are questioning the appropriateness of VAT in Small Islands States. In responding, Mr. Mullins highlighted that the general trend is always a big revenue increase at the start that later begins to slowly decrease. However, in PICs it is relatively stable and has been maintained in most countries with some PICs coming to rely on VAT as their primary source of revenue. This indicates that VAT is a success and the best option for small island countries as it is much effective than sales tax.

110. **Mr. Kuma, Solomon Islands asked if there is a level for revenue to GDP progression for OECD countries.** Mr. Mullins responded that there is a wide range in OCED countries. For example, European countries have very high revenue to GDP but have very high taxes, high social contributions whereas the US is lower at around than 25 percent of GDP.

111. **A question was raised about the effectiveness of tax incentives for development projects and how they can be best managed.** Mr. Rahman responded there was a lot of debate around tax incentives including what is the return to the economy for the incentive. Fiji's experience has been to scale back incentives over time when the objectives of the investment have been realized and then later convert them into investment allowances.

Agenda 22. Australian Perspectives of DRM in the Pacific

Domestic Resource Mobilization (DRM) in the Pacific: Australia's perspective

Presented by: **Mr. Matthew Lapworth, Director, Regional Political and Economic Growth, Australian High Commission, Fiji**

112. **Mr. Lapworth acknowledged the host country, the Government of Solomon Islands,** Ministers, Permanent Secretaries, Governors as well as development partners to the PFTAC Steering Committee Meeting. He briefly outlined his presentation on DRM and its importance in the PICs and Australia's perspective on DRM in the Pacific including current support, commitment, and further work going forward.

113. **Australia is strongly committed to support DRM in the Pacific, underlining the government strategy and framework to support tax policy and administration**. Australia has committed to double its support and technical corporation in DRM by 2020 by providing AUD$30m annual assistance. To meet its commitment, Australia provides support to PICs at the global, regional, and bilateral levels. Australia also provides support to international organisations as part of their support to DRM. In 2016 Australia provided $325,000 to support the Global Fund to assist countries to meet their international tax transparency obligations. Australia supports the OECD to work closely with countries near the Pacific region that are vulnerable to base erosion and profit shifting, and contributes to two IMF Trust Funds, the Revenue Mobilization Trust Fund and the Managing Natural Resources Wealth Trust Fund.

114. **Australia's supports DRM in the Pacific through PFTAC** which provides assistance to improve revenue administration and tax policy reform. Mr. Lapworth stated that Australia has committed AUD$10m in support to PFTAC Phase V. Australia also recognises the importance PITAA and its role in the Pacific and is very supportive to the establishment of PITAA's permanent secretariat.

115. **In terms of Australia's bilateral support for DRM in the Pacific,** in 2015/16, Australia had bilateral support programs for tax policy and administration in six PICs, including Kiribati, Tonga, Solomon Islands, Nauru, Samoa, Tuvalu, as well as PNG. In

total Australia's bilateral support was around $5.7 million in 2015/16, noting all of Australia's bilateral programs globally and regionally complement each other and with that of other development partners.

116. **DRM is very important in the Pacific and Australia is committed to support it considering that a** sustainable revenue base is a prerequisite for resilient and sustained economic growth. Tax revenues provide governments with the funds necessary to deliver public services and make investments as well as relieve national poverty. Tax revenue is also critical to fiscal resilience in PICs due to the range of economic shocks that PICs face, including natural disasters. Tax to GDP ratios in the PICs are relatively higher, and tax revenue has increased steadily over the last decade.

117. **Mr. Lapworth emphasized that there is still room for ongoing tax policy reform to broaden the tax base in some PICs.** Improving tax efficiency and minimizing distortions is an ongoing agenda for PICs. PFTAC assessments show that there is need to improve tax administration across the region with TA targeted in the specific areas where most change is needed. PICs are increasingly engaged in the international tax agenda but the region often lacks representation at the international level, and as such, PICs will need more support to meet their international tax obligations over time. Generally low rates of taxpayer registration, low levels of awareness of tax obligations, and high rates of tax evasion are issues that PICs must address to increase voluntary compliance.

118. **Australia is committed to support PICs to ensure they** have efficient and a context-appropriate tax mix recognising the unique characteristics and politics of small islands countries. Further, Australia will ensure that PICs are adequately resourced and have well-functioning tax administration systems and processes to deal with their constraints. Australia is also working to support PICs to fully engage with the international tax agenda and ensure the region is represented at high level international tax forums, and finally that all PIC taxpayers are aware of and comply with their tax obligations.

119. **Going forward Australia sees PFTAC as an important partner in the Pacific** with a significant ongoing role to play to ensure increased, targeted, and country-specific policy reform under IMF oversight. This will include facilitating the roll-out of TADAT across the region, monitoring progress and providing assistance to PICs to improve tax administration and enhance voluntary compliance. PFTAC must continue to support PITAA to represent PICs in international tax fora and to advocate for further assistance to help PICs meet international tax obligations. Finally, Australia is looking forward and encourages PFTAC to continue to work closely with them and other

development partners to explore innovative ways to improve tax policy and administration at both regional and country levels.

Discussion

120. **Mr. Kloeden thanked Mr. Lapworth for the presentation which clearly highlights Australia's interest and priority towards DRM in the Pacific.** This is demonstrated by the strong support Australia has towards PFTAC and in the broader DRM agenda globally through other IMF Trust Funds. In the future, there might potential for Pacific Island countries to tap into to the IMF trust funds as it was targeted to LLMICs and there are certain provisions for cases that could be applicable to PICs.

121. **Mr. Lapworth, mentioned that Australia is not just a development partner** providing development assistance and funds. Australia also advocates at the policy level in global fora and encourages PICs to use that opportunity to work with Australia to help represent their interests.

122. **Mr. Kloeden acknowledged and reiterated the support of Australia with TADAT** and its utilization in the Pacific as well as the establishment of permanent PITAA secretariat. International tax obligations are becoming important in the Pacific even though it may be challenging for small Island states who may struggle with the foundational tax administration matters. PITAA may be an ideal organization to help.

123. **Mr. Kloeden suggested there are other potential source of revenue mobilization.** For example, tax exemptions that are not effective and fail to serve their intended purpose should be scaled down as Fiji has demonstrated. The potential is there to get more from administrative efforts through doing reforms smarter with the available resources. Many administrations in the Pacific are underequipped and not resourced adequately which is a common challenged in many small islands states.

124. **Mr. Neves PFTAC, commented that the data showed that PICs collect around 25 – 30 percent of GDP which is not good enough**. While revenue collection is not very bad, countries must be careful to not unfairly place excessive burden on just a few taxpayers. Mr. Lapworth agreed that most of the reforms were developed in an advanced country context where issues and challenges are different compared to small island countries. PITAA could help reduce the administrative burden faced by the small countries which Australia offered to provide assistance.

125. **Mr. Lapworth stated there is no ideal tax-to-GDP ratio as it depends on each country's spending.** The CIT rate in the region is generally around 30% which very is high. Some countries have a lot of exemptions leading to some taxpayers paying and

others not. However, some countries have seen the benefits are high from exemptions with the burden falling on just a few taxpayers.

Agenda 23. DRM Perspective from World Bank Financing for Development paper: Financing Pacific Governments for Pacific Development; Pacific Possible

Presented by: **Mr. Kim Edwards, Country Economist, World Bank, Sydney**

126. **Mr. Edwards began his presentation by highlighting an aspect of the World Bank initiative *Pacific Possible.*** The project rationale is to consider the economic impact of a range of transformative opportunities that exist for PICs over the next 25 years in several areas including labour mobility, fisheries, deep sea mining, tourism, as well as major threats to Pacific life, such as climate change and non-communicable diseases. The findings presented in Pacific Possible will provide Pacific Island governments and policy-makers with specific insights into what each area could mean for the economy, for employment, for government income and spending

127. **Pacific Possible is a very ambitious undertaking in terms of the analysis time frame** with projections of 25 years. The paper presents scenarios of macro and fiscal balances such as revenues, domestic revenues, expenditure, grant aid and trust funds over the next 25 years.

128. **The baseline for revenue, expenditures, and grants** are based on the World Bank and IMF Debt Sustainability Analysis (DSA) which consider projections for the 25-year period. The baseline also considers some variances and alternative scenarios from the baseline scenarios. Another part of the work is to incorporate the growth of every investment in the Pacific Possible to see what effect they will have on fiscal outcomes in the PICs.

129. **The scenarios considered for revenue and expenditure include** baseline revenue and expenditure to GDP projections from the DSAs as well as expenditure to GDP maintained at historical averages for 15 years and human development expenditure under the expenditures scenario. In terms of grants, the scenarios also consider the baseline grant from the DSA, donor grant to GDP ratios held constant to the donor countries GDP and donor aid are held constant in its real value to the countries. From Trust funds, the paper considers broad scenarios which include the status quo rule designed to reflect current operations and the sustainable rule which holds the real per capita value of the trust funds assets constant.

130. **In terms of domestic revenue, most Pacific countries are doing well** with Tuvalu and Kiribati having high revenues from Fisheries compared to other countries at the similar income levels. Other PICs are taking on important steps to work on increasing their domestic revenue. The baseline revenue projections 2015-2040 are quite ambitious for some countries below the trend line with Tuvalu and Kiribati to experience declines in their revenue for fisheries licence fees. However, there is scope for further gains in revenue for most of the PICs through effective reforms including tax.

131. **The opportunity sets out in the Pacific Possible also have implications on government revenue.** It increases government revenue in two ways, the first being the fisheries intervention which was projected to directly increase fishing license fees for PICs. Secondly, increasing Pacific growth rates over the next 25 years, a lot of the other interventions including fishing license will increase the revenue base of all Pacific countries.

132. **The two scenarios considered in Government expenditure projections are baseline and historical.** The historical average scenario indicates that government expenditure in the Pacific tends to be high compared to baseline scenario. For countries like Kiribati, Tonga, Tuvalu, and Vanuatu the historical scenario yields lower levels of public expenditure for 2040 projection in the baseline. For Kiribati and Tuvalu, it likely reflects the increased fiscal space associated with fishing revenue and Tonga and Vanuatu reflects public expenditure constraints and relatively low levels of domestic revenue mobilisation.

133. **The effect of geography on public expenditure has shown that** some of the geographic constraints the PICs faced involves smallness, remoteness and dispersion and all these increase cost of governments. This is attributed to high costs associated with remoteness, difficulty of taking advantage of scaled economies also associated with smallness and the spread of population over large number of small islands. These are some factors affecting PICs compared to other small states. In terms of human development expenditure target in 2040 there is a higher than baseline projections, where geographic constraints need to be overcome with more spending as well as economic growth over the next 25 years. Thus, economic growth is important to fund the increase expenditure associated with these scenarios.

134. **For most PICs, the scope for substantial further gains in revenue mobilization** will require them to outperform their counterparts at similar income levels. The efficiency of public spending in most PICs appears to be better than or in line with developing small states averages. Many may need to spend more to attain small state average human development outcomes. Even assuming Pacific Possible growth and revenue dividends, achieving public spending levels consistent with the human development targets is likely to remain difficult in the North Pacific countries and in Papua New Guinea, Solomon Islands, and Vanuatu. As such, the scenarios suggest that there will be a continued need for aid across the Pacific over the next 25 years. In most cases Trust Funds asset balances will be insufficient to secure long-term fiscal sustainability, and debt is not a panacea, particularly for those PICs already at an elevated risk of debt distress.

Discussion

135. **Mr. Neves, PFTAC asked why the baseline revenue is projected to decline over 2015-2040 for Kiribati and Tuvalu**. Mr. Edwards noted that the decline is identical to the DSA which also reflects the baseline fishing revenue will not be sustained at the current level.

136. **Mr. Neves, PFTAC enquired about government expenditure projections** and how 2040 baseline expenditures are above the 2040 historic expenditure for example for Tuvalu. Mr. Edwards, highlighted that currently Tuvalu spends a lot per capita and there is an assumption in the modelling that each of the PICs achieves Small States average level of spending efficiency. For Tuvalu, this means assuming they get a long way towards reducing their financing requirements. So effectively the model indicates Tuvalu's spending is currently quite inefficient as the country spends a lot for their human development outcomes. For other countries, the model shows spending on human development are on target.

137. **A question was also raised on inefficiency, for countries that might not be small but are geographically diverse.** Would there be actions to reduce the inefficiency from their geography that could be applied to small states? Mr. Edwards responded that there are ways to reduce the negative impacts of geography and one is through the connectivity through trade in service such as in education, health, and using internet to improve service delivery in remote areas.

138. **Another question asked whether the projection include population projections.** Mr. Edwards respond that all the capita estimates are based on population projections from the UN.

139. **Mr. Kloeden PFTAC thanked Mr. Edwards for the presentation and was looking forward for the final paper of the project Pacific Possible.**

Agenda 24. Public Financial Management (PFM)

Presented by: **Mr. Savenaca Narube, Consultant, PFTAC**

140. **PFM is an important issue warranting discussion over two days at the steering committee meeting as it encompasses many important issues.** Panellist for the session were: Mr. Garth Henderson Permanent Secretary of Finance for Cook Islands who presented on mainstreaming the PEFA and sequencing PFM reform; Mr. Richard Neves presenting on medium term budgeting with Norman Hiropuhi, Solomon Islands Under-Secretary to share the Solomon Islands experience on Medium term budgeting; and Ms. Chita Marzan presenting on Fiscal Reporting.

Agenda 25. Main Streaming the Public Expenditure and Financial Accountability Framework (PEFA) and sequencing PFM reform

Mainstreaming the Public Expenditure and Financial Accountability Framework (PEFA) and sequencing PFM reform

Presented by: **Mr. Garth Henderson, Financial Secretary, Ministry of Finance and Economic Management, Cook Islands**

141. **Mr. Henderson explained his presentation of** a brief historical context of PFM in the Cook Islands, the mainstreaming impacts, PEFA and roadmaps, and highlighting some challenges the country faced with managing its challenges.

142. **The Cook Islands is no stranger to PFM reform**. In 1996 after some years of poor PFM the country had a major economic crisis which forced significant changes to

the economy and Public Sector. There was a loss of 25 percent of population from outward migration and a halving of public sector numbers in a very short period well as loss of public confidence in government. The ADB assisted in setting up an economic reform program that included the introduction of accrual accounting, a significant reduction in the budget and personnel, a wholesale reform to the tax regime; and a new focus on promoting the private sector.

143. **The reform was triggered by outward migration,** with the country understanding the need to properly manage its public financial processes and resources to ensure sustainability. There was a need for good political leadership, a combative opposition, strong public service leadership with good legislation in place, and a demanding and vigilant public.

144. **Following the events of the mid-1990s,** there was greater public awareness of the need to ensure sustainability of the country's public finances. The economic reform program of the Ministry of Finance and Economic Management (MFEM) saw the consolidation of revenue, treasury, statistics, and customs and aid departments within the Ministry. The focus of capacity building efforts was placed in the ministry to support the government. The vision statement of the ministry encompassed competency, professional organisation, and inspiring public trust and confidence.

145. **The Cook Islands has received two full PEFA assessments plus a self-assessment.** The results are available on the PEFA website. The Cook Islands have also developed two PFM roadmaps. The 2011 PEFA provided a stocktake of where the Cook Islands was placed 16 years after the initial reforms in 1996. Further, it identified gaps are and how to address them with best practice. The results and subsequent roadmap were published to demonstrate to some uninformed critics that the processes were reasonable and to identify areas where improvements were needed.

146. **The first Roadmap outlined a wide range of changes which were required in key areas,** including simple ones such as a change in the process for example, adjusting the timing on bank reconciliations; some were more comprehensive including reviewing the procurement processes; while others were out of the ministry's direct control such as the Audit Office and Parliamentary processes. The roadmap was approved by Cabinet and published and the roadmap tracking report was released regularly outlining what had been achieved.

147. **The 2013 PEFA self-assessment was conducted with a view to donor financing** as the country needed to ensure it had a robust position to discuss direct budget support and climate change financing including becoming an NIE. The self-assessment enabled the country to see the progress made and as preparation for a full PEFA in 2015. It also signalled a strong desire to improve PFM reforms. The 2015 PEFA outlined some significant improvements which enabled the country to access budget support from its primary development partner New Zealand and was also successful in achieving the NIE status for the Adaptation Fund.

148. **There is currently significant high level support for the 2016-2020 road-maps with signed statements of commitment and responsibility to the reform programs.** In the last PEFA assessment, Cook Island Government has improved its performance in 22 of 31 performance indicators. In the next three to five years, the Government's

intention is to consolidate the improvements made and address several key initiatives that Government believes are important to overall Public Financial Management.

149. **The agreed actions for the 2016-2020 road map focuses on:** improving measures of transparency and accountability across Government, improving the timeliness of financial reporting, further reducing systemic vulnerabilities to corruption by strengthening Procurement Policy, greater involvement of the legislature in scrutinizing public finances and the annual budget law, and Improved control in budget execution and improving public financial management across government.

150. **The major challenges faced by Cook Island Government include:** capacity constraints in the small public service, centralized capacity building in MFEM leaving line agencies with limited capacity. Expansion of roles of MFEM to compensate major infrastructure projects for water and sanitation, limited scope for tight specialization in a small public service, skills deficits, and loss of institutional knowledge. Finally, there are heavy workloads in the MFEM and a poor perception of PFM reform in line agencies where reforms are donor driven.

151. **In managing the challenges the Government took tight steps to prioritize the reform program** to country realities recognising capacity constraints, the cultural context, and targeting the capacity in areas with the highest return such as the FMIS project. Capacity building now also includes other line ministries and there is increased cooperation between central agencies to share expertise/technical capacity. Further, creating additional staff positions in important areas and more investment in human capital to address the skills deficits. There is also the rebranding of PFM reforms to meet the information needs of both the public and donors which adds value to the PFM.

152. **Moving forward, Mr. Henderson stated that the Cook Island government remains committed** to continue with the PFM reforms and ensure the reforms reflect realities on the ground through deeper reforms embedded into the country's key institutions. The country will continue to work with a variety of Development Partners and to invest more of its own resources into the reforms to increase ownership and add value.

<u>**Discussion**</u>

153. **Mr. Narube PFTAC, inquired about how political ownership was secured in the Cook Islands for PFM reforms.** Mr. Henderson responded that in the mid-1990s there was a total shock to the economy which triggered the reforms. As the result of the event, a lot of political attention shifted towards the MFEM that become very influential in pushing the reforms forward. There was strengthening of legislation around taxation, more effort was put in tax outreach with awareness becoming more acceptable at the political level as well for the public.

154. **Ms Doreen Siataga, Niue asked about the benefits the Cook Islands received from being accredited to become a National Implementing Entity (NIE).** Mr. Henderson replied that for Cook Islands the preparation to become an NIE ran in parallel with the other PFM reforms and as another driver to push for the reforms. In terms of climate change financing, the country receives grants and becoming an NIE it

will be easier for the country to access GCF funds. Mr. Henderson however highlighted that the efforts put into becoming an NIE is worth it not only for climate change financing but it also for strengthening the country's PFM system.

155. **Mr. Tiofilusi Tiueti, PASAI asked how the Cook Islands had the local capacity to absorb the PFM reform driven by the MFEM.** Mr. Henderson responded saying the line ministries capacity was limited post-1996. There was not enough fund to put into capacity building across the public service and focus was only in the MFEM. That has changed now, shifting the capacity building to other line ministries and in 2016 the PSC has completed the public service development strategy which recognises capacity building in the whole of public service.

156. **Mr. Henry Cocker, Nauru commented on the importance of maintaining reform momentum and asked about how Cook Islands achieved this.** Mr. Henderson responded that the country's demand for PFTAC assistance has declined and that some key MFEM staff are leaving due to the number of reforms to implement. However, MFEM managed to regroup and finish the outstanding reforms before taking on new ones. The focus now is on doing less but deeper reforms with the number of departments in the MFEM have already completed their own strategic plan to move forward. Mr. Henderson also mentioned that his ministry is also working with different development partners by managing different reforms on their own schedule.

Agenda 26. Medium – Term Budgeting & Planning

Medium Term Budgeting Framework

Presented by: **Mr. Richard Neves, Public Financial Management Advisor, PFTAC**

157. **Mr. Richard Neves provided an overview of Medium-term budgeting** for which not much work has been done in the Pacific. Medium term budgeting (MTB) will be a key focus during phase V of PFTAC support in PFM. Mr. Norman Hiropuihi will share the Solomon Islands experience on medium term budgeting.

158. **In begin medium term budgeting first a country must have a Medium-Term Fiscal Framework (MTFF).** MTB does not just involve the ministry of Finance but also other line ministries that require good capacity in both ministries to be able to implement MTB. Political support is also important to achieve MTB and planning. Ultimately MTB is about imposing fiscal discipline across the government.

159. **MTFF establishes multi-year (3 to 5years) fiscal targets in revenues and expenditures** and ensuring that targets are respected over the whole budget cycle from development to execution which requires discipline. MTFF is not particularly complicated; it requires good planning not just for 12 months but 48 months such as for example looking at revenue that will be received and expenditure that will be incurred. Across the Pacific many countries only project what is going to happen over one budget year.

160. **The first step in developing MTB is projecting how much revenue the country is likely which requires good macroeconomic forecasting capacity**. For example, how much the country will receive in fishing licenses, mining, non-tax revenue, logging and grants etc. The second step involves other line ministries examining spending for the country, identify the existing policy framework including current decisions made and capital expenditure. A better understanding of the fiscal environment beyond a year is important for MTB and planning for a country.

161. **Many countries use MTFF as it provides for a sustainable approach towards managing a country's finances.** A good MTFF will help a government maintain a sustainable fiscal system, effectively allocate resources in the areas of need and efficiently deliver public goods and services. Mr. Neves gave two examples of inefficient allocation of resources that is common. The first is where the budget is allocated to a particular project for a year but is not all spent during the budget year. The other is on capital expenditure where a ministry appropriates for example $4m for one year on capital project that will be implemented over 3 years. These are unrealistic estimates and ineffective allocation of resources which could be addressed by a good MTFF. A good MTFF is also important to address economic shocks the country could face in the future.

162. **Governments have a lot of things to think about such as** managing debt, overall spending on current and capital, domestic revenue, development partner's support and unexpected future shocks. Hence, when establishing an MTFF it is important to have strong policy underlying planned fiscal targets such as a revenue policy, savings policy, debt policy, and expenditure policy.

163. **MTB is mainly about the country's expenditure policy and what are the spending priorities,** the aggregate levels of spending and what sort of ceilings to put in place on spending at the ministry level. MTB does not mean the Government is locking in expenditure for the next four years, each budget year must still go to parliament for approval. MTFF clearly demonstrate the planned priorities and how revenue and expenditure is to be managed beyond the budget year.

164. **Mr. Neves then invited Mr. Norman Hiropuhi, Undersecretary Fiscal to share the Solomon Islands experience on MTB.** Mr. Hiropuhi began by mentioning that Solomon Islands have been thinking about MTB for some time but is not fully committed yet.

165. **Mr. Hiropuhi highlighted the benefits of implementing the MTB which generally makes the planning process easier to achieve results in the line ministries**. Solomon Islands is aware of such benefits and encourages other countries to consider having MTB. For the Solomon Islands, there has been a lot of improvement in the PFM

reform such as the new PFM Act with PFM regulations currently being drafted, improvements in the FMIS, accounting, and payment and revenue systems including ASYCUDA. Solomon Islands also have a macro economic forecasting model and medium term development planning for development projects under the PFM reforms. These are some of the preconditions to have a good MTB which is also part of the current reforms in the PFM.

166. **There are some challenges to the MTB in the Solomon Islands.** Some include capacity constraints across the MoFT and all other line ministries in identifying annual needs, let alone multi-year estimates. There is also limited capacity to keep within the approved annual budget as well as the capacity to effectively execute the annual budget. Another challenge is limited planning where there were few or no corporate plans and medium term strategies for ministries, limited linkages between government priorities and budgets that were approved and delivered. There are also the continual mid-year adjustments to expenditure estimates as well as changing government priorities. Mr. Hiropuhi also noted the issues with compliance and enforcement which are currently weak. These include issues with setting revenue estimates, a lack of strict compliance to expenditure ceilings, and ministries do not keep within the budget ceilings approved.

167. **There are a lot of reforms already in place in terms of PFM for MTB in the Solomon Islands.** However, Mr. Hiropuhi listed some other things the government needs to do before moving forward with MTB as follows.

- Agree on using macroeconomic forecasting to derive revenue estimates for the next two additional fiscal years. Currently the Economic Reform Unit (ERU)in MOFT is doing the macroeconomic forecasting.
- Agree to set fiscal targets to improve fiscal discipline, debt management and a balanced budget
- Agree to a pilot in 2 to 3 ministries to develop costed corporate plans and improve the link between these plans with the annual budget process
- Agree for the Cabinet to approve a set of strategic priorities early during the budget process to have budget allocated towards the set of priorities.

168. **In concluding his presentation, Mr. Hiropuhi reiterates that Solomon Islands** can do the MTB as some of the conditions especially on the reforms are already undertaken. It is a matter of getting the government to support and agree on having the MTB.

169. **Mr. Neves thanked Norman Hiropuhi for the presentation and mentioned that it might take a while for Solomon Islands to get into MTB.** However, he summarized the benefits of MTB including a more strategic allocation with expenditure meeting the government's priorities. MTB can improve the efficient delivery of goods and service, improve public investment management and the ability to maintain fiscal sustainability by having fiscal discipline in place. MTB is not an easy process, there must be strong capacity in the ministries in terms of developing and implementing the annual budgets and to prepare medium term fiscal outlooks.

Discussion

170. **Mr. Narube, PFTAC thanks Richard and Norman for their presentations and** asked how many countries in the Pacific had a medium-term budgeting which saw Cook Islands, PNG and Fiji responding they currently having MTB.

171. **Ms. Marga Peeters, EU asked three questions, two directed at PFTAC**. First, what was the degree of detail and involvement for MTFF for Vanuatu Mr. Neves responded that the MTFF is dynamic, it is done at the whole of government level not just one ministry and it should also include SOEs as well because it is all about fiscal risk. Importantly MTFF should be clear where every stakeholder can be able to read and understand and not so much about the volume.

172. **The second question by Ms. Peeters was whether the MTFF should be reviewed each year or say after 4 years.** Mr. Neves noted over time circumstances change, but ultimately what is important is being able to pay. If revenue declines, there must be adjustments to other aspect of the expenditure or debt policy which is why it is important to have a savings policy to create fiscal buffers.

173. **The third question by Ms. Peeters is on how MOFT and the Central Bank of Solomon Islands (CBSI) coordinate macroeconomic forecasting since both are doing macroeconomic forecasting.** Mr. Denton Rarawa Solomon Islands, informed the group that CBSI and MOFT are working together on the forecasting and there has been a lot of consultation between the CBSI and MOFT in developing the macroeconomic forecasts. Mr. Kikiolo, CBSI also supported the Governor stating that at the beginning of the first quarter MOFT and CBSI do their own forecasting and then consult each other to determine the underlying assumptions to see if they are consistent with each other. Mr. Hiropuhi, MOFT also adds that in terms of budget preparation the MOFT relies on the ERU for the forecast with the numbers believed to be consistent with that of CBSI.

174. **A question was asked about ensuring adequate anchors when running a multi-year budget since PICs are prone to price fluctuations which affect revenue. How are adjustments to make up for the loss of revenue.** Mr. Neves clarified that frameworks are simply a guideline for policy makers, and they are going to be times where countries will experience shocks. The MTFF and MTB should enable the government to demonstrate whether to borrow due to economic shocks or natural disasters to enable the country to function as normal.

175. **Mr. Tony Sewn, Vanuatu raised a concern on the uncertainties such as crisis, political instability, natural disasters and how PICs could address the issues when they arise.** Mr. Neves reiterated that when government is in the process of budget preparation and planning it must consider how it can save for the rainy days and how it can build resilience to manage the unexpected shocks in the future.

Agenda 27. Fiscal Reporting

Strengthening Fiscal Reporting

Presented by: **Ms. Chita Marzan, Public Financial Management Advisor, PFTAC**

176. **Mr. Narube introducing the last presentation on financial reporting which an important component to budgeting and invited Ms. Marzan PFTAC to make the presentation.** Fiscal reporting is very basic but critical elements of PFM. Studies have shown that lack of fiscal transparency is one of the key factors in some countries that have suffered from financial crisis. Hence, the presentation is important to advocate to the PICs to give more effort to improve fiscal reporting.

177. **Fiscal reporting is an important tool not only because it provides information to management** for decision making but also to ensure full accountability of all public-sector entities in the management of funds. In terms of strengthening fiscal reporting in PICs, the PEFA framework emphasizes the importance of fiscal reporting with many of the indicators related to fiscal reporting.

178. **Based on the latest PEFA assessment, 11 out of 16 countries have at least scored C meaning that they have met the basic requirements for fiscal reporting**. The first relates to consistency of classification for planning; forecasting and budgeting should also be the same for execution and reporting. Another aspect of fiscal reporting is the accuracy and reliability of data; the next is on coverage of reporting the PEFA requires that the consolidated report should at least cover the central government budgetary meeting or ministries and entities that are part of the budget including the revenue, expenditure, cash balances, public debt and loan guarantees. Fiscal reporting also requires frequency and timeliness requirements, with reporting on a quarterly basis and the information available within two months. The other is accessibility of the report if fiscal reporting is not completed without disseminating the information to the Public.

179. **Ms. Marzan commends the ongoing efforts by the PICs in trying to do better to provide more relevant and comprehensive information**. For example, some of the countries are already adapting international accounting standard such as classifying cash flows into operating, investing, and financing. Other improvements include disclosing expenditures paid directly by donors and reporting of budget execution commitments on actual receipts when payments are made. All these efforts lead to an increase in the reliability and timeliness and provide better access to information for the public.

180. **However, the new PEFA framework has raised the bar by increasing or requiring additional dimensions.** On public access, the PEFA now requires that countries must also release pre-approved budget proposals even before the parliament approves the budget document including the legislative scrutiny reports. Aside from monitoring, PEFA also requires monitoring financial and non-financial assets and liability. Ms. Marzan noted that PEFA requires information on investment projects, reporting by extra budgetary units, contingent liabilities, information of

public service delivery through assessing schools and hospitals and data integrity processes.

181. **Ms. Marzan provided a sample roadmap for fiscal reporting reform through Phases 0 – 4.** Aside from the reform on the accounting system there are sources of information needed in the government that must be maximised and used to supplement information coming from the accounting system. For example, the assets and liability registers, tax and customs administration and existing databases. This information will still be disclosed to the public as reports. Based on recent assessments the challenge that countries do not have clear accounting and reporting frameworks on what, how, when to record transactions and whom to report as well as a dissemination policy. Ms. Marzan concluded her presentation by posing some questions for the participant governments to ponder about basic data providers and a question whether the users of information disseminated need to know.

<u>Discussion</u>

182. **Mr. Loi Bakani asked if there is any reporting on tracking of private expenditures.** He provided the case for PNG where the country just signed up with the EITI and all the revenue from the mineral extractive sector is reported under the EITI including where the money is spent, company taxes, and royalties. Other areas include payment to the provincial governments. Ms. Marzan mentioned that one of the recommendations provided to countries in developing their chart of accounts is to expand their classification to include geographic location by province, district, or municipality or classification by source of funds such as from minerals fund, general fund, trust fund, or special fund; and classification by program including specific types of project. It by expanding the chart of accounts that a country can capture the details.

183. **Mr. Leota Ali'ielua Salani, Samoa asked about the allocation of weights to the different components of the PEFA as almost all countries score C .** Ms. Marzan explains that the rating methodology of PEFA classifies the indicators by two types. One indicator takes account of the weakest link where one dimension is affected by the other dimension with the other considering the average of the indicators where each dimension is independent of the other. The first method means that regardless of the quality of the performance of the one dimension all the others are affected by the lowest score. For example, if a country scores B, B & C and the weakest link is C than the overall performance score is C. The second type of rating for example is with data integrity, there are 3 types of reconciliations; bank reconciliations, accounts reconciliations and suspense accounts reconciliations. In this type of indicator average is taken because a country might not necessarily have the same score in the 3 reconciliations. Hence, the overall rating depends on the type indicators and dimensions.

Agenda 28. Remaining Items

Next Steering Committee Meeting

Presented by: **Mr. David Kloeden Coordinator, PFTAC**

184. **Mr. Kloeden thanked the Solomon Islands Government for hosting the 2017 PFTAC Steering Committee meeting.** Mr. Kloeden also thanked the participants and informed the committee that the next meeting will be around March 2018. Mr. Kloeden then asked for any volunteer to host the next meeting. Tonga expressed its willingness to be the host in 2018.

Agenda 29. Closing Comments

Closing Remarks

Presented by: **Mr. Denton Rarawa, Governor, Central Bank of Solomon Islands**

185. **Mr. Rarawa, in his closing remarks thanked the participants for the very productive meeting which saw good interaction and discussion over the last two days.** Mr. Rarawa, thanked all the presenters for the informative presentations which covered a lot of important areas. Most importantly, he looked forward for the 2018 work plan that will be finalized and distributed later in May. Mr. Rarawa then encourage the eight countries that are yet to give their contributions to PFTAC to do so to ensure PFTAC has the resources to continue to perform its responsibilities in the region and deliver TA. Finally, Mr. Rarawa congratulated and thanked Tonga who will be the next host for 2018 PFTAC Steering Committee Meeting. In concluding his remarks, Mr. Rarawa invited everyone to the closing dinner hosted by the Solomon Islands Government.

186. **MEETING CLOSED**